

AUDITOR - GENERAL  
SOUTH AFRICA

02 DEC 2015



BUFFALO CITY METROPOLITAN ECONOMIC ENTITY  
AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section 126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.

  
\_\_\_\_\_  
Mr. N. Ncunzana  
Acting City Manager

02/12/2015  
\_\_\_\_\_  
Date

# **BUFFALO CITY METROPOLITAN ECONOMIC ENTITY**

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## **General Information**

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<b>Legal Form of Entity</b>	Municipality
<b>Nature of Business and Principal Activities</b>	Local Government
<b>Grading of Local Authority</b>	Grade 6 Municipality
<b>Acting Accounting Officer</b>	Mr. N. Ncunyana
<b>Chief Financial Officer</b>	Mr. V Pillay
<b>Jurisdiction</b>	The demarcation board has determined that Buffalo City Metropolitan Economic entity (BUF) includes the towns of East London, Bhisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gomo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
<b>Business address</b>	Trust Centre Oxford Street East London 5201
<b>Postal address</b>	PO Box 134 East London 5200
<b>Bankers</b>	Absa Bank / Standard Bank
<b>Auditors</b>	Auditor General of South Africa
<b>Members of Audit Committee</b>	Mr. V Pangwa (Chairperson) - appointment 01 November 2011 Mr. S Mkebe (Member) - appointment 01 November 2011 Ms. E Ameyaw - Gyarko (Member) - appointment 01 November 2011 Ms. W Dukuza (Member) - appointment 03 March 2014 Mr. H Marsberg (Member) - appointment 03 March 2014 Prof. TM Jordan (Member) - appointment 03 March 2014
<b>Legislation Governing the Municipality</b>	The Constitution of the Republic of South Africa, 1996 The Local Government Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

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# **BUFFALO CITY METROPOLITAN ECONOMIC ENTITY**

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

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# BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	2,200,541,208	2,164,432,912
Inventories	6	44,878,411	50,597,990
Receivables from exchange transactions	7	320,652,236	375,933,168
Receivables from non-exchange transactions	8	374,152,283	201,436,468
VAT receivable	9	83,018,326	65,568,270
Current portion of operating leases	10	2,573,198	2,157,778
Current portion of long-term receivables	11	17,552	15,920
		<b>3,025,833,214</b>	<b>2,860,142,506</b>
<b>Non-Current Assets</b>			
Non-current portion of operating leases	10	66,444,415	64,286,181
Long-term receivables	11	9,440	26,992
Intangible assets	12	98,373,784	98,875,352
Investment property	13	328,302,103	333,211,336
Heritage assets	14	49,632,925	49,632,925
Property, plant and equipment	15	11,986,967,229	11,828,576,079
Investments in associate	16	81,908,295	59,548,855
Deferred tax	65	-	275
		<b>12,611,638,191</b>	<b>12,434,157,995</b>
<b>Total Assets</b>		<b>15,637,471,405</b>	<b>15,294,300,501</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Borrowings	17	46,097,194	54,633,001
Consumer deposits	18	48,504,722	44,837,812
Current tax payable	69	265,227	247,956
Finance lease obligation	19	2,738,106	2,783,463
Provisions	20	166,234,394	126,385,663
Payables from exchange transactions	21	535,207,489	641,525,590
VAT payable	67	172,477	141,519
Post-retirement medical obligation	23	15,665,595	14,779,624
Unspent conditional grants and receipts	22	205,714,609	213,717,743
		<b>1,020,599,813</b>	<b>1,099,052,371</b>
<b>Non-Current Liabilities</b>			
Borrowings	17	496,476,706	542,573,901
Finance lease obligation	19	767,176	3,425,027
Provisions	20	10,433,259	57,755,878
Post-retirement medical obligation	23	487,757,326	399,295,095
Other financial liability	66	100,000	100,000
		<b>995,534,467</b>	<b>1,003,149,901</b>
<b>Total Liabilities</b>		<b>2,016,134,280</b>	<b>2,102,202,272</b>
<b>Net Assets</b>		<b>13,621,337,129</b>	<b>13,192,098,231</b>
Reserves			
Revaluation reserve	24	4,236,662,877	4,185,854,579
Accumulated surplus		9,384,674,252	9,006,243,652
<b>Total Net Assets</b>		<b>13,621,337,129</b>	<b>13,192,098,231</b>

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\* See Note 2 & 48

# BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	29	2,424,752,656	2,198,959,742
Rental of facilities and equipment	27	17,430,173	15,017,944
Licences and permits	27	14,034,279	14,160,878
Other revenue	27&31	221,465,547	243,576,732
Interest received	27&36	159,221,294	123,654,168
<b>Total revenue from exchange transactions</b>		<b>2,836,903,949</b>	<b>2,595,369,464</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	28	794,518,845	672,956,899
<b>Transfer revenue</b>			
Government grants & subsidies	27&30	1,563,755,083	1,546,689,231
Fines	27	5,499,648	7,571,936
Public contributions and donations - PPE	27	3,410,514	-
Fuel levy	27	361,639,000	343,412,000
<b>Total revenue from non-exchange transactions</b>		<b>2,728,823,090</b>	<b>2,570,630,066</b>
<b>Total revenue</b>	27	<b>5,565,727,039</b>	<b>5,165,999,530</b>
<b>Expenditure</b>			
Impairments	15	(504,750)	(16,867,247)
Loss on disposal of assets	15	(30,408,389)	(11,042,335)
General Expenses	32	(971,872,848)	(933,654,838)
Employee related costs	33	(1,192,330,837)	(1,134,596,421)
Remuneration of councillors	34	(48,347,387)	(45,261,268)
Debt impairment	35	(365,110,172)	(241,010,582)
Depreciation and amortisation	38	(729,375,005)	(629,731,263)
Finance costs	39	(60,674,266)	(65,776,579)
Contracted services	41	(14,606,853)	(9,742,994)
Grants and subsidies paid	42	(234,174,659)	(144,963,740)
Bulk purchases	43	(1,213,641,773)	(1,110,464,178)
Repairs and maintenance	63	(284,054,233)	(285,681,086)
<b>Total expenditure</b>		<b>(5,145,101,172)</b>	<b>(4,628,792,531)</b>
Revaluation realised		(66,573,130)	38,024,299
Fair value adjustments	13	(4,909,235)	29,081,150
Share of surplus of associate accounted for under the equity method	16	22,359,440	54,222,847
		<b>(49,122,925)</b>	<b>121,328,296</b>
<b>Surplus before taxation</b>		<b>371,502,942</b>	<b>658,535,295</b>
Taxation	68	17,546	120,935
<b>Surplus for the year</b>	62	<b>371,485,396</b>	<b>658,414,360</b>

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# BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand		Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported		2,415,539,829	8,393,971,581	10,809,511,410
Adjustments:				
Prior year adjustments	24&48	-	84,831,903	84,831,903
<b>Opening balance as previously reported</b>		<b>2,415,539,829</b>	<b>8,478,803,484</b>	<b>10,894,343,313</b>
Change in net assets:				
Surplus for the year	48	-	658,414,360	658,414,360
Take on PPE donated	15	-	1,816	1,816
Take on PPE donated	15	-	19,240	19,240
Take on Movable Assets	15	-	3,320,186	3,320,186
Take on Intangible Assets	12	-	6,139,502	6,139,502
Take on Motor Vehicles	15	-	5,657,274	5,657,274
Adjustment to Recreational Facilities	15	-	(106,657)	(106,657)
Take on Community Facilities	15	-	82,727	82,727
Revaluation reserve realised	24	(12,036,679)	-	(12,036,679)
Take on leases	24	-	115,363	115,363
PPE revaluation	15	1,782,351,433	-	1,782,351,433
Infrastructure adjustment	24	-	(146,203,643)	(146,203,643)
<b>Total changes</b>		<b>1,770,314,754</b>	<b>527,440,168</b>	<b>2,297,754,922</b>
<b>Restated Balance at 01 July 2014</b>		<b>4,185,854,583</b>	<b>9,006,243,652</b>	<b>13,192,098,235</b>
Changes in net assets:				
Surplus for the year	62	-	371,485,396	371,485,396
Aquarium animals adjustment	15	-	40,181	40,181
Zoo animals adjustment	15	-	328,985	328,985
Take on Movable assets	12	-	6,206,798	6,206,798
Take on New Jersey Barricades	15	-	369,240	369,240
Land revaluation	24	60,129,906	-	60,129,906
Revaluation reserve realised on derecognition	24	(9,321,617)	-	(9,321,617)
<b>Total changes</b>		<b>50,808,289</b>	<b>378,430,600</b>	<b>429,238,889</b>
<b>Balance at 30 June 2015</b>		<b>4,236,662,872</b>	<b>9,384,674,252</b>	<b>13,621,337,124</b>
Note(s)		24		

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\* See Note 2 & 48

# BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services	61	3,304,048,115	3,319,851,069
Government grants & subsidies	61	1,563,755,083	1,546,689,231
Interest received	36	159,221,290	123,654,168
		<u>5,027,024,488</u>	<u>4,990,194,468</u>
<b>Payments</b>			
Employee costs & Councillors remuneration	33&34	(1,240,678,224)	(1,179,857,689)
Suppliers	61	(2,712,224,780)	(2,786,343,944)
Finance costs	39	(60,674,266)	(65,776,579)
Taxes on surpluses	69	-	(481,305)
		<u>(4,013,577,270)</u>	<u>(4,032,459,517)</u>
<b>Net cash flows from operating activities</b>	44	<b>1,013,447,218</b>	<b>957,734,951</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	15	(930,050,010)	(565,083,025)
Proceeds from sale of property, plant and equipment	15	6,253,524	765,772
Purchase of intangible assets	12	-	(21,361,607)
Proceeds from sale of other intangible assets	12	110,944	-
Purchase of heritage assets	14	-	(2,554,604)
Proceeds from sale of heritage assets	14	-	462,948
Net movement on long-term receivables	11	15,920	14,441
Net movement on non-current investments		-	892,235
<b>Net cash flows from investing activities</b>		<b>(923,669,626)</b>	<b>(586,863,844)</b>
<b>Cash flows from financing activities</b>			
Net movement on borrowings	17	(54,633,002)	(49,970,262)
Net movement on consumer deposits	18	3,666,911	(681,453)
Net movement on finance leases	19	(2,703,208)	898,723
<b>Net cash flows from financing activities</b>		<b>(53,669,299)</b>	<b>(49,752,992)</b>
<b>Net increase in cash and cash equivalents</b>		<b>36,108,293</b>	<b>321,118,115</b>
Cash and cash equivalents at the beginning of the year		2,164,432,912	1,843,314,797
<b>Cash and cash equivalents at the end of the year</b>	5	<b>2,200,541,205</b>	<b>2,164,432,912</b>

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\* See Note 2 & 48

# BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. council approved policy)	Shifting of funds (i.t.o. MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2015</b>										
<b>Financial Performance</b>										
Property rates	797,179,911	16,118,391	813,298,302	-	813,298,302	794,518,845		(18,779,457)	98 %	100 %
Service charges	2,420,087,636	(22,643,575)	2,397,444,061	-	2,397,444,061	2,424,752,656		27,308,595	101 %	100 %
Investment revenue	77,490,885	-	77,490,885	-	77,490,885	159,221,294		81,730,409	205 %	205 %
Transfers recognised - operational	825,736,342	103,564,338	929,300,680	-	929,300,680	948,262,810		18,962,130	102 %	115 %
Other own revenue	638,051,145	16,172,573	654,223,718	-	654,223,718	623,479,161		(30,744,557)	95 %	98 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>4,758,545,919</b>	<b>113,211,727</b>	<b>4,871,757,646</b>	<b>-</b>	<b>4,871,757,646</b>	<b>4,950,234,766</b>		<b>78,477,120</b>	<b>102 %</b>	<b>104 %</b>
Employee costs	(1,237,215,012)	(3,909,992)	(1,241,125,004)	-	(1,241,125,004)	(1,192,330,837)		48,794,167	96 %	96 %
Remuneration of councillors	(52,254,296)	-	(52,254,296)	-	(52,254,296)	(48,347,387)		3,906,909	93 %	93 %
Debt impairment	(203,074,220)	15,999,999	(187,074,221)	-	(187,074,221)	(365,110,172)		(178,035,951)	195 %	180 %
Depreciation and asset impairment	(710,000,000)	5	(709,999,995)	-	(709,999,995)	(729,879,755)		(19,879,760)	103 %	103 %
Finance charges	(59,248,068)	-	(59,248,068)	-	(59,248,068)	(60,674,266)		(1,426,198)	102 %	102 %
Materials and bulk purchases	(1,201,856,097)	(12,928,320)	(1,214,784,417)	-	(1,214,784,417)	(1,213,641,773)		1,142,644	100 %	101 %
Transfers and grants	(204,012,957)	8,374,999	(195,637,958)	-	(195,637,958)	(234,174,659)		(38,536,701)	120 %	115 %
Other expenditure	(1,079,245,061)	(151,060,217)	(1,230,305,278)	-	(1,230,305,278)	(1,372,424,688)		(142,119,410)	112 %	127 %
<b>Total expenditure</b>	<b>(4,746,905,711)</b>	<b>(143,523,526)</b>	<b>(4,890,429,237)</b>	<b>-</b>	<b>(4,890,429,237)</b>	<b>(5,216,583,537)</b>		<b>(326,154,300)</b>	<b>107 %</b>	<b>110 %</b>
<b>Surplus/(Deficit)</b>	<b>11,640,208</b>	<b>(30,311,799)</b>	<b>(18,671,591)</b>	<b>-</b>	<b>(18,671,591)</b>	<b>(266,348,771)</b>		<b>(247,677,180)</b>	<b>1,426 %</b>	<b>(2,288) %</b>

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# **BUFFALO CITY METROPOLITAN ECONOMIC ENTITY**

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

## **Statement of Comparison of Budget and Actual Amounts**

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	700,781,726	19,618,128	720,399,854	-	-	720,399,854	615,492,273		(104,907,581)	85 %	88 %
Contributions recognised - capital and contributed assets	-	458,860	458,860	-	-	458,860	-		(458,860)	-	-
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>712,421,934</b>	<b>(10,234,811)</b>	<b>702,187,123</b>	<b>-</b>	<b>-</b>	<b>702,187,123</b>	<b>349,143,502</b>		<b>(353,043,621)</b>	<b>50 %</b>	<b>49 %</b>
Share of surplus (deficit) of associate	-	-	-	-	-	-	22,359,440		22,359,440		
Taxation	-	-	-	-	-	-	17,546		17,546	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>712,421,934</b>	<b>(10,234,811)</b>	<b>702,187,123</b>	<b>-</b>	<b>-</b>	<b>702,187,123</b>	<b>371,520,488</b>		<b>(330,666,635)</b>	<b>53 %</b>	<b>52 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	942,007,423	226,737,581	1,168,745,004	-	-	1,168,745,004	930,050,010		(238,694,994)	80 %	99 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	700,781,726	19,618,128	720,399,854	-	-	720,399,854	615,492,273		(104,907,581)	85 %	88 %
Public contributions and donations	-	458,860	458,860	-	-	458,860	-		(458,860)	-	-
Internally generated funds	241,225,697	206,660,593	447,886,290	-	-	447,886,290	314,557,737		(133,328,553)	70 %	130 %
<b>Total sources of capital funds</b>	<b>942,007,423</b>	<b>226,737,581</b>	<b>1,168,745,004</b>	<b>-</b>	<b>-</b>	<b>1,168,745,004</b>	<b>930,050,010</b>		<b>(238,694,994)</b>	<b>80 %</b>	<b>99 %</b>

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## **Statement of Comparison of Budget and Actual Amounts**

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	1,439,865,660	(26,964,336)	1,412,901,324	-	-	1,412,901,324	1,013,447,218		(399,454,106)	72 %	70 %
Net cash from (used) investing	(942,007,423)	(226,737,581)	(1,168,745,004)	-	-	(1,168,745,004)	(923,669,626)		245,075,378	79 %	98 %
Net cash from (used) financing	(54,633,002)	-	(54,633,002)	-	-	(54,633,002)	(53,669,299)		963,703	98 %	98 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>443,225,235</b>	<b>(253,701,917)</b>	<b>189,523,318</b>	<b>-</b>	<b>-</b>	<b>189,523,318</b>	<b>36,108,293</b>		<b>(153,415,025)</b>	<b>19 %</b>	<b>8 %</b>
Cash and cash equivalents at the beginning of the year	870,043,894	(870,043,894)	-	-	-	-	- 2,164,432,912		2,164,432,912	-	249 %
<b>Cash and cash equivalents at year end</b>	<b>1,313,269,129</b>	<b>1,123,745,811</b>	<b>189,523,318</b>	<b>-</b>	<b>-</b>	<b>189,523,318</b>	<b>2,200,541,205</b>		<b>2,011,017,887</b>	<b>1,161 %</b>	<b>168 %</b>

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